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# Post War Reconstruction & Planning.

BY

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## **PROBLEMS OF POST-WAR RECONSTRUCTION AND PLANNED ECONOMY.**

### **Book I**

1. Prophecy is not the line of the Economist, who can only make certain generalisations not bound by time-conditions nor by the eccentricities of human behaviour. No particular future pattern of economic life, national or international, can be foreseen by him. This is the first important point to be emphasised; and no recommendations for any specific action or policy are therefore in order. There may be certain desirable patterns,—desirable at the current date,—and they can be stated; but such discussions are an expression of the general ethical and moral sense in economic matters. One may respect such discussions, but cannot take them seriously as a part of the economic science.

2. The shape of the post-war world cannot be envisaged: but it is supposed that in the chaos following the wreck of the present system, there should be certain dominating and creating tendencies which would constitute not only an attack on poverty, but also an arrangement ensuring competence to all. For the good of the world there ought to be (economics does not deal with oughts)—(1) better production and distribution systems inside the countries of the world, and (2) a rational and honest division of responsibilities in the international order. One can recollect in this connection the recommendations by one of the Genevan Conferences in the Pre-war days,—the conference in which world-wide rationalisation was contemplated as a possibility (1937).

3. But a right method of thinking should proceed not on wistful assumptions, but on given data. One must analyse (1) the prewar trends in the economic matters of the world; (2) the trends during this war

that is going on; and (3) the possible tendencies that might generate from the war-conditions. This is rather complicated study as each stage is far from simple. As the war is still on, and shall continue for some time yet, the study of the war conditions as they will develop is bound to be incomplete and tentative.

#### 4. The Pre-war World

This was the world of 1920—38. It was a strange world of nationalistic competitions from which no clear pattern of economic life emerged in experience. Europe, the most important economic unit until 1914, was in a sorry condition, and as a whole indebted to the U. S. A. in 1918—1930. Each country, though possessing great economic potentials, was at that time, that is, the beginning of the period, saddled with disorderly systems natural to a stage of transition. Outside Europe, the U. S. A. had grown into a great and dominant economic power, with the level of production and enterprise raised beyond expectations. The grounds were ready for economic autarky of the U. S. A. over the whole American continent, if not elsewhere. In Asia there were countries like Japan, Australia and India which had started modern industrial production, mostly to supply the goods and services cut off by the war, the supply that came from the U. K., Germany, Italy and France. The whole of Africa was undeveloped, and could be regarded as sponges for the manufactured goods by other nations, though political mandates and monopolies stood in the way of free trade.

As a whole the period 1918-30 saw the nations seeking to reconstruct the economy that had been shattered, but with modifications necessitated by the changed conditions. But the reconstruction efforts were crossed by the play of strong nationalistic interests. Every nation thought not only of quickly repairing the war losses and injuries, but also of

achieving a relative solvency and economic competence. There was de-investment everywhere at a rate quicker than that of investment, as the opportunity of re-investment came uncertainly. The break down of the internal economy was felt more keenly than that of the inter-national economy.

5. The confused erratic efforts of 1920-30, in spite of the forced restoration of the Gold Standard in 1926, unsettled all established economic thought. The conclusions derived from long-time view of things, were given up, as the consideration of the short time immediate ruling interest became urgent. Controlled economic orders came to be the rule of the day, and the theory of trade-cycles obsessed the economic thought of the time. Regulated internal economy and the agreed on international economy were not only prescribed, but rigidly followed. From 1930 onwards, the controlled nationalistic economies and the necessary international trade proceeded on parallel lines; and there arose in 1931-5 a great rivalry between New York and London for control of the world economy, a rivalry between the dollar and the £ sterling that caused the Tragedy of the Franc (see Enizig's book on this Tragedy). The situation was sought to be stabilised in the Tripartite Agreement of 1936. But the rivalry had done its work. It had split the world into 'blocs', the dollar bloc, the Sterling bloc, and the Gold bloc; and in each bloc a particular dominant political economic unit ruled, e. g. the U. S. A. in the dollar bloc; the U. K. in the sterling bloc that included some European countries together with the Empire countries; and Germany in the Gold bloc. Autarkies in some form or other became the order of the day.

Internally, each country tried to force up production and employment by control of the foreign trade which for countries burdened with war-obligations, meant all selling and no buying abroad. Yet there were between 1925 and 1938 no less than four cycles,

though of small magnitudes in the industrial countries, and one long deep Depression for Agriculture in 1929-39. Control and re-organisation were tried in every direction, without any very appreciable effect. Whatever uncertain and flagging recoveries took place, might be due to armament-production that soon came again all over in Europe. As for the world economy, it was covered by a number of new devices, of restriction and protection, along with a number of bilateral, and a few multi-lateral agreements in all of which the bargaining spirit showed itself strongly. Neither any system of satisfactory national economy nor any new methods of international trade or production came. The confusion was deep when the present war came as a great relief. Anything less drastic could not be expected to put an end to the muddle and anarchy of 1920-38. The war lifted the economic world out of depression, low prices and unemployment that no policy could cure.

6. The pre-war Economy, however showed one significant trend viz., control in national and international economy. That the control did not quite succeed, is no matter. The possibilities of control were largely revealed, showing that the economic affairs of the world can be conducted with more deliberation; and probably to better effects, if somehow or other conflicting national interests can be reconciled.

The War, to the Economist, is a particular complex of demands, prices and supplies, compressed into a particular category of value, viz., Victory. But it means something else also. viz (1) an advance towards full employment that may be maintained in peace time also; (2) Time mal-adjustment, due to the great urgency, that may be rectified in peace time; (3) probably accurate estimates of economic potentials; and (4) the need in the post war-peace-time of equating the rate of necessary de-investment and simultaneous re-investment or additional investments.

7. As all this will equally affect national and international economies, the relevant and crucial question will be: Should there be a form of international economy first envisaged as clearly as possible, and then the national economies be considered in the light of the new world economy ? or should the national economies be first taken up and rebuilt, letting the world economy to be constructed out of what eventuates in the national economies ?

The decision on this issue is not easily made. The difficulty in the way is that each country in the post war period will have to face a particular problem with specific features and implications, and so must be left to build up again on lines most advantageous to itself. The international economy is for sometime going to be dominated by the U. S. A, the strongest economic power with a tremendous high level of productivity and a more tremendous international credit, not to speak of the gold-hoards in the vaults of the country. There will be no other country that would be in a condition to compete with the U S. A. or to co-operate. This on the one hand, and the passing out of Germany as a great productive power together with Soviet Russia coming in a similar role, on the other, would complicate the world economy in a way that one cannot imagine. In Asia, Japan may pass away, while India and Australia may come in though not immediately to fill the gap. There will accordingly come a good deal of shifting of weight, the consequence of which cannot be guessed; nor the time in which the new economic powers would be able to stabilise the world economy, either in their interest or otherwise.

The great uncertainties here encourage the idea that the national economies be first allowed to be built up. But these, again, may grow up in such manner that they would be exclusive units, making it impossible for a logical order of world-economy to be reconstructed by their divergent interests or competitive lines of production.

Obviously, there must be a solution that would harmonise the national economy with the world economy, which ever is taken up first.

8. The years 1920-39 saw controlled economies and also a little of planned economy, but without anything clearly established. It was also felt that there could be no return to the older modes of economic activities. The future, therefore, lies between these two—though they are fundamentally different; and the issue is to be considered before any choice can be made.

## Book II

### CONTROLLED OR PLANNED ECONOMY ?

9. Controlled economy has not passed beyond the condition of an experiment nor has planned economy.

If one can understand it, controlled economy seeks, on certain theoretic assumptions, to remove obstructions from or create facilities for the working of an individualistic or privately managed production and consumption system. These assumptions have not been quite indisputable. Some hold that the assumptions pertain to welfare-economies; and others, that they relate chiefly to the economies of production. The welfare-economies presume that a better distribution of concentrated purchasing power would be helping everything; while the production economies postulate that if investments (additional) can be kept up, the economic system would function steadily and would improve unflaggingly. Accordingly, the system of controls devised in the one order of thought is different from that in the other.

But neither system is expected to work. The welfare scheme is not independent of production, and so if it is worked, its effects cannot make production go on. The production scheme, with all its multiplier and accelerator, has not succeeded in operation.

Control is difficult to apply in a system that is worked by individual choices and acts, because control

may be applied at the wrong end and at the wrong moments. Private enterprise and private choices or plans must move in the certain shape of aggregate activity; and it is very difficult to say where it exactly requires check or encouragement. The check or encouragement may produce effect in one direction, but the effect may be undone in another. Control from outside is not always calculated to produce desired effects, for much of its value is lost in the increased degree of friction in an individualistic economy.

The principle of controlled economy and its practice, which was tried in 1920-39 is this : There are certain general rules of economic progress in an upward trend of production and consumption. These rules do not work well in a given context of life except at a certain place and time. It is necessary, therefore, to find out the resistances and the frictions, and eliminate them, or at least reduce them as far as possible.

It is the control of the resistance factors and the friction points.

But these factors and points are so numerous and complicated that they cannot be easily controlled. So far no very clear technique has been discovered and commonsense shows that control of an order supposed to be moved by more or less free individual or group choices and acts would tend to upset it, if the control is not very wisely chosen. It is difficult to say that control is always very wisely chosen; and things are not what they seem when a control system is at work.

10. The great question of the day rises here in the following way.

The accepted doctrine of economics is that scarce means should be so applied to chosen ends at any date so that the means would go the longest way possible. The doctrine requires some elaboration. The scarce means are (1) the natural resources which

are given at a certain date and also at all dates; and (2) the human labour, physical and mental. As regard the (2), the physical labour is given quantitatively at a date by the number of the working population. The mental labour is not so definitely given, but at any date it is determined by the moral and intellectual level of a community. (1) is a passive factor dependent on the application of (2) to be of any utility or value to mankind.

With these determinate means the ends chosen and sought to be satisfied at a given date are (1) those needs that are determined by the biologic necessity of living effectually; and (2) the requirements developed by the social demand on all that all should live as moral and intellectual beings. Individuals, it may be supposed, fulfil these ends by a series of acts which are results of some thinking and choice. Generally, the fulfilment of the ends takes the shape of the activity of getting and using a number of concrete goods and services, all created by human labour working on the natural resources. As every individual must pay for the goods and services with his own labour or efforts, he must be wise and use some judgement, or he would not get the best value of his efforts or exertions.

Now if all individuals in a community were equal in all respects, then the sum of individual choices and acts would equate to the social choices and acts, and if all communities of the world were equal, the sum of the social choices and acts would constitute the world choice and act at a certain date. But no such equality is there.

In the theory of General Economics, individual inequalities are overlooked or resolved in some universal principle chosen and emphasised e. g. self interest; reason; substitution; etc. etc. This does not eliminate the inequalities and the heterogeneity of data, i.e. acts and choices, but would neglect these for the sake of the larger generalisations. The generalisations, with

several degrees of relevance to given data are valid; but the application of these in particular examples and patterns is difficult, and the burden of it is thrown on those who would apply them.

The principle of Planned Economy (or controlled) is that the inequalities can be reduced considerably, if not eliminated altogether, so that the general principle may work smoothly in a field as much homogeneous as possible.

This is a principle of necessity and it has been suggested by two distinct series of experiences: (1) that life and the conduct of life has been coming more and more under deliberate control with the advance of knowledge and science; and (2) that the social process shows psychic integrations here and there that do not allow free individual choices and acts, while it also works so unequally at several levels that opportunities for such free choices and enterprises are not universal in the community. Individuals have been restricted by the social morality and unequal conditions of life—which may be traced to the social valuations of the functions of the social group or socio-economic groups.

It is now to be decided if the first series of experiences can be brought to bear on the second series, so that the number of realised opportunities may be increased as far as possible and that of the unrealised opportunities be reduced.

An order of socio-economic life that would effect this last would certainly mean an economic gain.

11. The individualistic free enterprise in economy goes on the following argument:

Every individual who can produce will produce according to the best of his capacity. What he would produce shall be valued according to the social judgement of its functional importance; and in exchange he will receive goods and services in proportion to the

value of his product, the other goods and services produced being also valued in the same way. Of course, in the exchanges he can use his own judgement as to what and how much of a thing or service he would receive.

The sum or aggregate of individual products would be in a reasonable manner equal to the sum or aggregate of the demands or things and services sought in exchange. But though this is a general tendency yet owing to (1) unequal productive capacity and (2) unequal valuation, the two sides of the equation do not agree usually. In other words the aggregate supply and the aggregate demand do not balance each other though they tend to or may tend to. Obviously again such an order would be a little fortuitous. Individual services and acts in different conditions at the same date may be conflicting.

Again it was long ago pointed out by Marshall, that the results of the individual judgements and acts need not be the best possible, in an economic sense, because individual means are always limited, and the individual end-concepts are conditioned by the means. For his share of the services made available to the whole community, the individual also is not fully responsible, owing to the appearance and predominance of social estimates of functions of the constituent groups.

In such cases, the substitution of individual choices and acts by social choices and acts would mean (1) a larger command of the means and (2) more long-sighted end-concepts; and these may be of economic advantage. One can easily discover it in India as regards 'land'; and what is true of land, may also be true of the other factors.

But the problem is : how can the social choices be determined ? The social choice does not require the postulate of a Social Mind. Experience shows that the business of living has been raised from the level of fortuitous chance by the enterprise and intellect and capacity

to act of a few, and some of these have come in the course of time to take charge of the economic system of production. Living at a relatively higher level, these have been responsible for the advancement of civilisation. The leadership, however, has been until now confined to a handful, who have found out at last that the scope of effectual leadership will be restricted or exhausted, if the general level of living is not raised. This experience of the intellectual and enterprising few has come as a hard real fact and also a clear grasp of the logic of human affairs. The creative or constructive activity of these few would come to a stop, if the raised level of living does not move still upward. The Social Choice is the clear disinterested creative understanding by these few and is not to be confused with the blind confused psychic impulses and desires of the bulk of a community. It is, accordingly, likely to be a kind of supervention and something authoritarian, until the general level of life is sufficiently elevated.

This social choice has come in the nature of things, and is concerned, with the help of knowledge and science, to find new-scale of means adopted to new and larger end-concepts.

Obviously, again, knowledge being imperfect yet, there are risks and uncertainty in the relation of the social choice, Act and the effects thereof.

Besides, the new choice and act would lack one of the fundamental securities of the individualistic economy, viz. the hypothesis that every one would instinctively seek to avoid losses and that every one would seek the best that he can make of his resources. The hypothesis gives an order (theoretically) that cannot be replaced (in theory) by the new order to be created by the social choice and act.

But then the new order, which must be Socialist Planned Economy, will have to depend on the enlarging knowledge and the growth of science. It would not

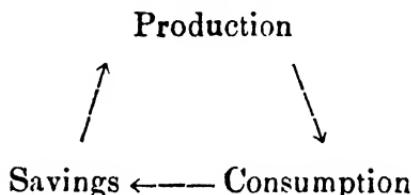
depend on the balance of psychic forces or tendencies. Its province would be clear cut and definitely acceptable.

If by the new planned order the rates of production and the scope of enterprise increase, without any prejudice to individual initiative and capacity to think and act,—the order will be economically preferable.

12. The growth of economic activity towards a controlled system during the years 1920-39 shows that a preference for the large scale planning is there, as a conclusion of some very rigorous thinking.

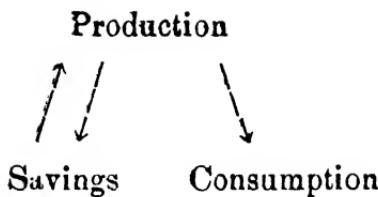
The experience, though entangled at last in non-economic matters, and forces, showed that (a) consumers' preferences can be found out in a more rational way than through price-movements (b) that internal economy can be brought under control to a certain extent, through the control of money and credit circulation; and (c) that the internal economy of a country can be placed in a more purposive way in relation to the external.

Planned Economy certainly differs from a controlled system in essentials. The degree of pre-determinations in the Planned Economy is unique. The controlled economy depends on a flow like the following:



And as savings are left to individual judgements, the result is that the flow is arrested and held up unexpectedly. The rate of savings never equate to the rate of new investments; and the control fails owing to this.

Planned Economy on the other hand would have to keep up a system of activities in this order.



Production and savings keep together instead of the latter being tied to consumption in a system of freely determined or controlled prices.

Obviously, planned economy takes no risks here as in the equation of rates of saving = rates of new investment. The equation is so managed as to be ipso facto true.

13. It may be suspected that this would mean an arbitrariness; but the suspicion is groundless, for, it should not be forgotten that it works in a homogenous context of social life. One can find in it (1) the rate at which the propensity to consumption works (2) the rate at which production shall proceed, and (3) the rate at which saving can be made. All this will certainly have to be put on a time scale, when ever additional investments would be made.

The difficulty would be to find out the real rates of production; but here standard rates can be found out for comparison as in the Scientific management. Production will be a three dimensional affair here, viz. Physical Labour  $\times$  mental labour (capital)  $\times$  time. These three can be found as determinate factors.

But the economic context must be simplified by the elimination of profit and interest, which will have us function in the predeterminate planned economy. Even fixed rates of profit or interest are unnecessarily disturbing. If the desirable directions for investments are given, there would be no need of any indication through interest rates; and if there is already the incentive to production in advanced knowledge and clear logic of facts, what would be the sense in retaining profits? So there would be only wages and wage-rates, and they

can be determined by the Wage-fund or the Production-rate.

14. Differences in wages may exist (1) if the psychic force behind spending is equally supporting to the plan in all cases as in Soviet Russia; or (2) if no special markets, where differential incomes may be spent, are not permitted to exist.

At any rate such differences should not be permitted to create disturbing inequalities.

15. Whether by sheer planning full employment can be reached economically in the economy of the country or no, is difficult to find. In the Soviet Russia this has been found, but one cannot judge, how that has been economically possible, without a terrible depression in the real wages all over at the beginning, or how much of it was due to armament production (which comes to the same thing). Full employment is possible only with the help of external trade, and probably this external trade (imported skill, knowledge and machinery) helped the advance of employment. So long as the real costs and prices in the country are not equal to the world costs and prices, full employment does not seem to be real. So it is necessary that the world-economy be a part of the national planned economy, and vice versa.

Of course, when money is there, the money rates will have to be kept close to the real rates every where and at every stage; if any differences or gaps are introduced, that should be kept in control, and there must be ready to hand means to make up the difference or fill the gaps.

16. So the following can be concluded in this Book:

- (a) If there is a requisite amount of knowledge and morality, planned economy based on social choice is likely produce economic gains on the present date.

- (b) The success of planned economy depends on  
(i) the simplification of the economic structure  
and (ii) homogeneity of a certain degree of  
the socio-economic life.
- (c) The theory is, accordingly simple also-and  
refers to (i) rate of production (ii) rate  
of consumption and (iii) rate of savings in  
homogeneous field of operation.
- (d) But planned economy must contain a knowledge  
and not simply a guess, unless it is very  
intelligent guess, of the world economy and  
the dominant general tendencies in it.

### **Book III**

## **THE FUNDAMENTALS OF A WORLD ECONOMY.**

17. The fundamentals of a world economy are  
(1) the knowledge of the worlds' economic potentials (2)  
the right direction given to the working up of these  
(3) avoidance of uneconomic production in the world-scale  
through an introduction of a greater amount of  
mobility of factors and exchange of goods and services  
produced under the principle of comparative costs ! by  
all countries.

Of these (1) requires careful collection and study of current data and expectations of future developments; (2) demands that a general rise in the level of living of all must be directive; and (3) requires not only development of communications and transport, but also absence of all impediments to movements of factors to the position of the best advantage. Probably, in the last case, the greatest theoretic difficulty will be experienced and also conflicts of economic interests. So it is necessary to go through the grounds, simply and briefly revealing the ground position. And as a matter of fact, the theory of free trade, as put by the classical writers, is still valid, though the suppositions about the

inmobility of some factors may have to be modified a little, without much change in the General Theory.

*Principles of International Trade and the Indian foreign Trade of future.*

**Section 18.** The first logical statement on International Trade was given by Ricardo in the Theory of Comparative Costs. The theory has been widely known and discussed. The basic structure of it is, however, simple enough viz. that of relative advantages in production of things or services by a country as compared with those by another. Exchanges of goods and services on this principle would spell an international division of labour in the condition of imperfect mobility of factors between countries, and consequent economy. The result of exchanges would be benefits received by each country according to its capacity for efficient production, other things being equal. Of course, the principle is not easy to apply to a case in which many goods or services are involved; and benefits are difficult to assess; but that does not invalidate the theory, or the principle of free exchanges as far as possible.

**Section 19.** Ricardo's theory passed on to later generations two problems: (a) that of finding a comparable unit of value; (1) the implications of concentration. Ricardo calculated on the basis of labour days; but with the abandonment of the labour theory of value, various refinements were introduced e.g. displacement costs; scarcity costs; etc. etc. Elaborations would be found in Harbaeler's book on the subject to which reference is made. But labour is fundamental, and simplest as a unit; and so long as any logically made unit is consistently used, it does not matter. Besides, demand conditions are also to be taken into account somewhere. A country cannot go on buying things because it can produce, though it may not want unlimited quantities. Again, the use of money may restrict buying powers of a country in the short period. But the general theory of foreign trade can overlook

such particular incidents, and ought to get down to the simplest universal principles—which is Ricardo's theory.

**Section 20.** The issue of concentration is also sometimes discussed, on the supposition that division of labour and specialisation might bring that about, resulting in utilization of idle resources left. Again, if there is any arrest of foreign trade by non-economic causes, such concentration would cause a good deal of hardship and loss. Besides, if concentration goes on as between a country with increasing returns and one with decreasing returns of industry, it would mean that after sometime either trade will stop or new directions will be given to it. It may also happen that in a country like India exportable surpluses may diminish, and a new reorganisation of its economy may be forced on it. In all such cases drugged concentration would be harmful and cannot be thought of.

**Section 21.** But Ricardo's theory or the suggested division of labour does not mean such concentration as would be harmful, nor persistent, though it cannot be maintained. His theory provided an escape from the depression of an isolated agricultural economy, and could not be limiting itself by any kind of cramping concentration or specialisation. Nor does his theory shut out any possibilities of changes in the economic structure of a country, which must come in time. If free trade has not worked satisfactory, the fault is not Ricardo's; but of those who carried the trade blind to everything except their profits, and who soon, too soon, provoked a reaction in the shape of Protectionist Tariff strengthened by List's great work.

The power of production, List suggested, of a country is threatened by competitive free trade, if the country is backward; and this power is more vitally necessary than mere rise in the standard of living by buying in the cheapest market and selling in the dearest. Besides, without sufficiently high production power, the capacity for foreign trade must be always very poor. The capacity for production will be injured; if unrestricted

foreign competition and trade would come. So it must be protected; and this is the more urgent, because production, owing to pressure of immediate needs, may usually be organised on competitive lines. Until the productive power of a country is sufficiently developed there cannot be any great advantage by it, for, the distribution of benefits would go according to the productive powers.

**Section 22**—So Free Trade was inunciated as an escape from the miseries of closed economy, while protection was stated to be an escape from the inflictions by foreign trade (free and competitive). The two appear to move in opposite directions, but are to be excused in the name of "better economy." One must reconcile the two opposites.

**Section 23**—The Free Trader's objections to Protection are well known to students of Economics. But apart from the conventional ones, is Marshall's objection that protection injures many, and benefits only a few, though the benefits are obvious and the injury deep and unseen. Coming from Marshall, it requires consideration.

Obviously foreign trade would benefit many and injure a few. It will benefit the exporters, and the employed in export industries, and it would benefit the importers as a class, and the general public who would receive things at prices which cannot be enough to pay for the goods if they were produced in the country with relative disadvantages. If this does not happen, then the country's conduct of the foreign trade is bad. If it helps to raise the standard of living of a few, and depresses that of the rest, it is unscientific and exploitative. It is not what Ricardo meant.

Protection may raise the productive power of a country, and taken by itself, appears to be desirable at first sight. By creating safe markets and high prices, it would benefit manufacturers and employment, if

there are unemployed factors, though not without some fall in the real wages for all. In an economy where all factors are fully employed, it may cause a disturbance; and the case would require to be considered separately. If employment is increased (and not merely shifted) by diminished real wages, profits may rise higher, and the producer-capitalist class would benefit by its also, though the total benefit may include a large number. The question as to how it would hit the exporters and importers and the consumers will be discussed later. That depends on the given conditions with which a country starts protection and their may be cases in which the consumers' sacrifices (together with the loss by the exporters and importers) may be considerably greater than the benefits that accrue to those interested in the protected industries. It may be noted that this is not a general statement of a fact, but only of a probability. But there is something else.

**Section 24.** Suppose that an agricultural country sets up some industries under protection. Let these industries produce £x millions of consumption goods, that cost (under free trade) y £'s millions. This would mean that the agriculture pays to the new industries  $(x-y)$  million £'s in excess (each year), and if those in the industries are a few relatively to those in agriculture, the drain or transfer would be gradual and recurrent, impoverishing the many. The position will not be much modified by any higher payments made to the producers of the raw materials for in any case, the payments would not be relatively great enough to effect a difference. An industrial organisation would use only a very small fraction of the total agricultural output. The ultimate depression which has been noticed in Germany and suspected in the U. S. A., of agriculture cannot be remedied by raising agricultural prices by a fiat. This will mean that the bulk of the people must suffer in such a case.

So it is in this larger context of the total economy that the merits of protection can be judged and weighted. Increased output (even accompanied by falling cost)

is not a criterion. Besides, one ought to find by statistics if falling costs are reflected in the prices in the protected markets; for, if that does not happen, the consumers sacrifices would go waste. Again, if it helps to raise the standard of living for comparatively few, as compared with the depressed standard of many it means injury. This is what Marshall suggested.

Yet the problem is that in many cases protection appears to be the only way of fostering the productive capacity and improving the human factor which is essential.

**Section 25.** Protection at the outset must mean lessened imports. Whether at a subsequent date it would mean increased imports (and exports), owing to increased productive power, or not, depends on existing conditions and the willingness or demand of the protected country for buying other things. There is no inevitability in the statement that exports (if they are not adversely affected) must be paid for by imports: that is, one must import whether the imported things are wanted or not. The same holds good for the increasing purchasing power argument. The increasing purchasing power (in money terms) may be used or not; which in real terms it may find that the foreign market's would not accept the goods or services. Then, again, the increasing purchasing power must be qualified by the fall in real wages, with the result that adequate surplus purchasing power may stick in the hands of a few, who would import costly luxury articles and transfer the purchasing power to other countries (See Appendix I).

Suppose again, the protected industries begin to produce at competitive costs, (for the world market) after say 8 or 10 years (the 27-30 years suggested by Taussig need not be true for all time); but then the country will find the foreign markets no longer open. The world will not wait for the protected industries of a country to produce at long last goods (competitive) at competitive prices. Besides, other more efficient

countries will also have gone forward a good deal in the interval.

Figures would show (Appendix I) that Protection leads to contraction of foreign trade at the outset and in developed stages, to embarrassed excess power of production.

**Section 26.** So what Marshall said of Protection may unexpectedly come to be true. Whether those injuries are comparable with those inflicted ultimately by unredeemed free foreign trade to a country, cannot be said. But free trade certainly benefited a country like India also at the outset. Only changing conditions of life and economy have weighted the free trade against her. (See Part II). It is therefore, not right that Ricardo meant unalterable economies of countries, and an arrangement of these as producers of manufactured goods and those of raw materials. Such an arrangement was due to the capitalist producers for foreign markets in the 19th century.

Besides, in 1930-39 the world saw a good deal of protection etc. etc., and various ingenious devices to work it with. The experiments did not yield any conclusive results. But each country felt the need of foreign trade, though only to find markets abroad for its own goods. The process was complicated by adverse balances of payments on non-economic accounts. Even a country with an active balance like the U. S. A. was embarrassed. There were, again, national driving policies for expansion inside, irrespective of what happened outside. The results are shown in Appendix II.

**Section 27.** However, Free Trade and Protection (of some type) suggest two alternate approaches to a central issue in economics. Free Trade would show that the move to expanded national economy and full (and right) employment of factors must be made with the aid of the international exchanges (free). Protection

implies that a country must begin with its own particular resources, developing them within a closed system until such a time when it can enter foreign markets with clear prospects of gain. Otherwise, employment of factors and expansion of economy will suffer.

These two approaches can now be examined.

**Section 28.** Let A, B, C, D, E,...be more or less closed isolated economies with dissimilar potentials and conditions.

Each will be pressed by immediate needs for a living and produce things or services according to the best of its available knowledge, intellect, and judgement. One cannot say how far each would go and what economies each will achieve. If population in each increases, their will be increasing employment of factors, but it is possible to imagine that the development will be irregular and straggling and the standard of living not high generally owing to ignorance of better conditions elsewhere. The internal economy will also show social inequalities of a certain degree. At any rate, consumption goods will be produced in a large way, for the bulk of the people, and production of capital goods will remain at a level with the needs of the consumption goods. Supposing it to be a capitalist individualist economy, it would be subject to fluctuations and crises of serious kinds.

When one of such economies, dominated by producers, opens foreign trade for outside markets, it will reap at first advantages not open to others. If it sells dearely and buys cheaply, it will enrich itself. Suppose A does it. B, C, D, E, will have to pay out of unused surpluses and produce specially to pay. This would mean a new stimulus which may do some good, but how much will be determined only on balance. The ultimate benefit to each, and the capacity for foreign trade would remain indeterminate. There will be no comparative costs, but exchanges in goods and services

in absolute demand, the economic results of which cannot be foreseen. Or the trade will be for profits and composed of fancy goods, quality products, having special markets that cannot expand. One can see that in the composition of foreign trade in the ancient times. There cannot be any law to cover such movements of trade; Accordingly, one cannot say how far it would develop at any rate it, would not develop into world trade and world-economy. If so, specialisation will result here more certainly than elsewhere in such conditions.

The alternate approach is this each country considers in the light of general knowledge its relative advantages of production at a given time. It should know that these relative advantages of one time cannot be those for all times. The economy as it will be worked must change. New knowledge, communications, increased mobility, substitutability, and costs of working up potentials must be changing and bearing on the economy. Unceasing adaptation must be there in determining the relative advantages. It is with these conditions that production begins, and economies practised. If specialisation is there, that must be due to economic causes and advantages, and it would be always consistent with the efforts of finding increasing employment until full employment is reached. Not until the costs-price structures inside tend to the same as the world cost-price-structures, full economy and employment will eventuate. Besides, this will reduce the margin of competitive industries, unless the world demand is large enough to take off the total competitive output at a price profitable to all. And the countries concerned will benefit, if they do not fall into the hands of profiteering capitalistic producers and exploiting financiers. The gains will presuppose not only full economic growth of each country but also mobility of factors between countries, so that a factor that cannot be used economically in one place can be moved to another and worked up, and arrangement of production in the light of the total (calculated) world demand and supply potentials.

Obviously all this would not come by mere chance, nor by allowing things to find their natural levels. There must be more deliberation in working the principle of Ricardian theory, which, as already said, is yet substantially unshaken in the foundations. The theory has to be worked not in a frictionless world but in a world where clashes of interest may arise owing to the inability to look very far. The history of the actual Free Trade of the 19th century shows the dangers and diseconomies of uncontrolled international trading. Nations did not seek to help one another economically, but followed the policy of "beggar thy neighbours", and hardly any two nations acquired efficiency of manufacture before they started fighting for markets and raw materials. Trade did not follow free lines for any period. Neither the hypotheses nor the anticipations of the Ricardian theory were at work when the war broke out in 1914. Cobden's ideals fell on the grounds of profit making and were shattered.

One may, therefore, say that the real free trade never came. A travestied, distorted form came only from which only negative conclusions can be derived, if at all. For the general position marked out by the theory is essentially as follows: A, B, C, D, E have relative advantages in factors and products. If factors cannot move, products can, but without movement of factors also no complete economy in production is possible. If factors have imperfect mobility outside the country, the defect can be made up by moving goods, so that the foreign trade may act as a legitimate expansion of the internal market with increased demand. Expansion of production will come until full employment is there, and naturally, if we deduct the costs of transfer or movement, there should be one price all over, internally and externally. So the national cost price structure ought to be, in ideal conditions, tending to be the same as the world cost price structure, at least the same as the world price structure.

And there is nothing unintelligible in this general

position. Development of the world's communications have overcome much of the immobility that existed in Ricardo's days and the international trade may now move more easily over a country's necessary and economic production of consumption goods for itself.

**Section 28.** Of course, the international money (=gold) caused some troubles also though it helped the trade substantially until 1914. It is useless to repeat that history or what happened in 1915—40 in the matter of gold. Gold still remains behind international trade, but is thinning down into a sort of fiction. And with 99% of the world's gold stocks in the U.S.A. it may happen in future that gold would die out as a fiction also. Yet if a new monetary unit is there, the U.S.A. gold stocks shall have to be accounted for in it and that will be no easy task. At any rate, U.S.A. may not give back any large part of the gold through trade and her position in credit would be always a threat held. Gold cannot be demonetised without unpleasant repercussions in the world's money market and the value of the same. The problem would be accentuated by the difficulty of building up a world trade with or without the U.S.A., and her unquestioned dominance all over. What is needed is not the invention of a new international unit of account, which is a mere technique, but agreements about the future trade, and the elimination of any effects of adomineering economic (or political) power with the largest amount of buying power but without the means of using it in a way that might help.

**Section 29.** So the conclusions can be set down as follow :

1. Growth of an economy means production increasing at a rate (through increasing degree of substitution) until there are equal rewards for factors in several employments, showing increasing and equal degrees of efficiency all round.

2. But employment ar

extention of markets in the last resort and it is by international trade (free) that markets can be continually expanded. For within a closed economy a country's demand may reach a saturation point (if population does not increase rapidly); but yet the world demand is largely unsatisfied and would extend supplies very far yet, almost indefinitely.

3. This requires free trade and if competition is positive, competitive trade. Whether Protection at any stage may impede or impair this trade permanently for a country it cannot be said. But protection does some harm in short term and so it is necessary to find out an alternative that would yield the advantages of this protection without the disadvantages or injuries.

4. But there must be more of deliberation in the conduct of international trade, and more of the active knowledge of its essential truth applied to this conduct. This may require scrapping of much that may be of value but stands none the less in the way. One of the things to be so scrapped may be the U.S.A. Gold hoards or the hoards found in any other country, because the loss involved will be compensated by real gains in a better order of world trade. (For the outlines of such an arrangement see one of the Appendices) The need for mobility is there—and the growth of transport and spread of scientific knowledge ought to be such that the factors will be moved to the positions of the greatest advantage, if they are not already so placed.

## Part II

### THE INDIAN FOREIGN TRADE.

**Section 30** Until 1941-42 India sold to the world mostly agricultural goods that in each year hardly amounted to 10% of the total agricultural output of about 1800 crores in normal times (=1928 prices) The export of food fell gradually until 1929, upto which date it became negligible. Non-food products

e. g. Cotton, Jute, oil-seeds, came to compose the export trade, supplementing the sale of some minerals. Anything was imported, mostly consumable goods until 1933-4, since which date capital goods, chemicals, etc. have been imported increasingly. Figures might be instructive in this respect and they can be found in all official reports (See one of the Appendices).

Though India's foreign trade has not been very considerable relatively to the total production, yet this trade affected the national economy. Supposing the average value of the trade is 200 crores, and the average value of the N. D. is 1800 crores, the Trade is  $\frac{1}{6}$ th of the whole annual N. D., and not, therefore, expected to be irrelevant or negligible in the count. And the exports being mostly agricultural any changes in the trade or the value of it would greatly affect the rural classes more than the urban population. On balance, again, the trade meant in the past sale of agricultural products at a profit, and purchase of industrial goods not produced, at least not very cheaply producible at first, abroad. But the advantages of such trade naturally fell in the changing conditions of India, with an increasing pressure on land for food, and the turning over to commercial crops only, like the oil-seeds, cotton, jute etc the world demand of which are likely to be considerably variable.

There are other complexities also. The cost price structure of the Indian Economy is very peculiar in such conditions and shows very uncomfortable features whenever a change comes.

**Section 31.** The manufacturing industries (except Jute factories) are all of recent date. They have been kept alive and flourishing by protection that began effectively in 1926-30 to help some of the industries now prominent e. g, cotton textiles, Iron, and Steel, Sugar, Paper etc. There were some considerable unprotected trades e. g Cement, but those of the group which could protect their own interests in the best

manner possible in the depression period of 1929-37. Of course, neither the textile nor the sugar industry felt very badly in the depression; but the present war saved them both, while it certainly made the Tata's (Iron and Steel) feel bold enough to declare its intention of entering foreign competition in future. None can say if the intention will be fulfilled, and how far; but that can be seen only in future. What is interesting in this connection is that the Sugar industries talked of exports (having accumulated surpluses), and the textile industries actually exported, though with the internal market safe-gaurded.

The industries encouraged by the present war demand protection in the post war period. So it is likely that India would have a predominantly protected order of production, expecting to export with ensured internal markets. For protection is not easily raised as the U. S. A. experience shows.

Yet it is obvious that the agricultural economy of India must be changed now. The benefits derived by it at the outset have been dwindling or becoming uncertain. The story of the last 10 or 12 years is a dismal account. Of course the Indian agriculture can be yet indefinitely improved and conditions bettered. But the improvements made at larger costs would help only the internal economy, without much more of expansion in the world markets.

**Section 32.** When a country is not much populated agriculture may be paying (taking handicrafts and domestic manufacture into account). It may possess a decent standard of living, if not very high. And so long as the economy is simple, inequalities of incomes etc. etc. will be much limited. It may also profit by foreign trade. But if population increases and the pressure on land, the economy will deteriorate, and the country would not only find its exportable surpluses diminishing, but would be reduced to a low standard of living and inequalities of earnings. The evil can not be long checked by any palliatives like large

scale production of commercial crops and buying food products with these. Besides, if the country is an old one, it may be involved in diminishing returns. In the present state of the world and scientific developments the fate of the commercial crops of any particular country is open to unpleasant vicissitudes, apart from the cycles.

Besides, the established truth is that compared with manufacturing countries, agricultural ones must ultimately suffer from a depression.

**Section 33.** So Indian industries must come and not only for the sake of the internal economy but also for external And as much of efficient industrialisation is required as can be provided. There need not be any restricting or limiting idea as that of balanced economy which is likely to be unreal. There can be no balance, between the two, which are of quite different natures not only in productivity but also in respect of the goods or services demanded.

But does the industrialisation require protection? That would depend on the post war world conditions and the provisions that the planned international order will make, and calculation of the probable injury (permanent and temporary) that protection may do. Yet it seems that protection may not be required; all losses incurred in converting war industries to peace-time will be compensated for, so that India will be able to fall into the international order of production at the least cost to herself. What is sought to be brought out here is that in the Industrial Planning of India, which looks inevitable, the provision for the export of all possible orders of goods, services and factors must be made.

### Appendix I

#### THE 15 YEAR INDIAN PLAN.

1. Given other things as equal, an addition to

the capital equipment of a country is expected to yield proportionately additional incomes, i. e. output.

This is the substance of the Indian Plan set forth. 10000 crores of Rupees would be newly invested in production in 15 years, to produce a N. D. three times that of 1932, thereby doubling the income per capita (as in 1932) the increase in the population being taken into account.

And the desirable employments of the new capital have been shown, manufacturing industries having the largest share, so to say, but social services are not omitted. The expected net income (specially defined in the pamphlet) are for every Rs. 2.4 Re. 1.3 in manufacture; per every Re., Rs. 1.2 in agriculture; and in the services, for every Re., Re. '2.'

2. A general plan-and the first in the field-is naturally general and one may, therefore, find it rather vague and unsatisfactory. For instance, it is not sufficiently explained why 1932 figures and the price level of 1932-9 were taken for calculations, when the plan will be working in 1945. Again, the obvious fact that costs and prices would rise unequally over all the field in the execution of the plan have been neglected. The fundamental principle of production-consumption and savings has nowhere been examined, though 17 p. c. or so of the increased N. D. is to be saved (in 15 years) for reinvestments. The three 5 year plans have been given but nothing has been said of the probable effects. Lastly nothing has been said about the required simplification of the economy or the homogeneity of the socio-economic context of the plan. As a matter of fact the over simplification of all issues, as relevant to practice, makes the plan only too obvious a proposal.

3. It is natural to conclude that the makers of the plan have not sought to find economic investments, but have gone to get only increased production. But the calculation of the net products is vague; and there are

many things that may come in between the investments and the expected rates of yields. There may be an expected increase in frictions and resistances. What is most serious is the indifference to the de-investments necessary at the end of the war, and the need of counteracting these by an equal rate (probably a higher rate) of re-investments. And evidently it will not be possible to begin before the war is over.

4. Of course, the Plan is to be thanked for the hard thinking that it has caused. But one should not take it as final because of all of its omissions and commissions, some of which are very serious (An Alternative Plan is shortly to be issued by the author). Yet the implications of the plan for the Reconstruction in the post war period may be stated here. The Plan shows that in the postwar period, many of the Asiatic countries would seek to make up the leeway in the industrial production and build up their own economies first. This is, in the case of India, a necessity, but it may be so in many other instances, and if this tendency prevails, it will cause a general oversight of the international economy which will be difficult to organise again. Yet the improvements and developments suggested have been long overdue in many countries, and it is probable that the countries devastated by the present war will also be in the same condition and shall have same expectations.

## Apendix II

### LINES OF THE FUTURE WORLD TRADE

The distribution of the factors, Land, labour and capital is unequal in the several countries or communities. Let the factors be  $x$ ,  $y$  and  $z$ . Some economies may possess at any given date more of  $x$  than  $y$  or  $z$ , others more of  $y$  than  $x$  or  $z$ , and still others more of  $z$  than  $x$  or  $y$ . At the start, all economies begin with  $x$  or land, but modify the use of it as  $y$  and  $z$  increase. When  $x$  is the least available in course of time compared with  $y$  and  $z$ , it is used also sparingly, and au

industrial (manufacturing) economy comes to grow up. Whether too much of  $y$  or labour may embarrass manufacturing economy or not, cannot be said but it has been pointed out that a declining or stationary population (in a closed economy) is certainly embarrassing, adversely affecting the marginal efficiency of new capital investments in production.

The world economy requires that (1) in each economy  $x$ ,  $y$  and  $z$  should be used as fully as possible in producing things or services, but such things and services as will be produced at "comparatively least costs." The comparatively least costs signify at a given date the most economical use of the factors under given conditions, but they do not prevent changes in economic structure and conditions. A country beginning with much of  $x$  and with  $y$  and  $z$  more scarce, may in course of time come to pass a balance between the three, and have more of  $y$  or  $z$  than  $x$ . The first necessity is, therefore, to find out (1) the current production at currently comparative costs, and (2) the future production at future (probable) comparative costs. This last can be calculated as a probability from the given trends in the rate of the growth of population and the rate of the growth of capital not only in a particular country, but in all countries.

The next things needed will be (1) to see if all the factors in all the countries are as much equally efficient as possible, and (2) to organise each economy in the best possible manner. These two are important. Naturally similar organisation will appear, when it is found—that a particular type of organisation gives the best results. So it is necessary to bring about a certain degree of homogeneity in the world economy.

Then there should be a set of studies on how in each economy  $x$ ,  $y$ , and  $z$  are used as far as possible, and that without any prejudice to substitutability or extensibility. A certain amount  $x$  will go with certain proportions of  $y$  or  $z$ , and from all such possible combinations, co-efficients of productivity will

be obtained. Giving some scope for the changes in the economy, there may be found a number of coefficients. Provision must be made for the utmost economic expansion. If it is found in the process that certain factors cannot be used for the found combinations, arrangement for the transfer of such factors to better employments may be made.

Of the movement of the factors there is clear necessity, if economic production must be there, but there need not be unrewarded transfers. Ricardo's theory suggested the relative immobility of factors, which required was sought to be overcome by mobility (free) of goods and services produced out of the factors. One would see that it was certainly a best way if immobility of factors is the fact. But that does not ensure the best use of factors or the utmost extended use of the factors, for certain amount of factors would necessarily lie outside the area of the application of comparative costs. It may be, however, that Ricardo only referred to a party, a country's economy, viz, that for international trade, taking the other part, viz, home production and home consumption part for granted and not subject to comparative costs law. But whatever it be, it may be necessary to move factors every now and then in order to bring up an economy to the point of full efficiency and employment, and such movements should not be impeded. In other words, just as capital can move about freely, and Land (that is produces of land) also do, so must Labour, though it may be that the problems of emigration and immigration may appear to be very difficult. Yet it seems that after all, no very big and embarrassing scale of movements will be needed.

### **THE ALTERNATIVE PLAN.**

1. A Plan of Production must have some end in view. It may be a desirable standard of living which may be said to be a system of expected demands or preferences of consumers. If a desirable standard could be so constructed that it will

be acceptable to all, it might give a direction to the plan. Of course, the standard of living is not merely a required quantity or quantities of goods and services, but it also means costs, and costs presuppose a price-system.

The formulation of a standard of living to be imposed is a ticklish piece of work, and is at the utmost a rather vague thing. Consumers' associations may be set up and they can be consulted every now and then, but that would not permit the imposition of the standard to be easier. It may be that a scientific calculus of the bare necessities e.g. food, clothing, housing, etc. etc. is made; but there is no guarantee that when these are provided, they would be used or consumed. The presumption that whatever is produced will be consumed, is a long term concept; and so if in the short time, the rule does not operate, investments will be economic losses.

Besides, the imposition of a standard of living means that there must be homogeneity in the social structure to a very large extent. Such homogeneity would come if temperaments, outlooks, expectations and means-and-end concepts were in a large degree equal. If this equality is not in the socio-economic structure, the planned production may be confronted with block ups that would react against the plan and make it unworkable.

3. This can be explained. Suppose that at a cost of 1000 crores of additional investment (on certain basis of calculation) the output of agriculture is increased. Whether this will mean a 130 p. c. increase in incomes or not cannot be said for prices of the produce will fall, if supply is increased disproportionately to demands. If it is suggested that the 130 p. c. increase is in real production, then it may be that the raising of the standard of living will not be equal to that increase, however high the real incomes be. People may buy only what will be required, or, what they can take or they will grow

(in non-food ranges) what they can sell. Both these are indefinite, and so the effects of 130 p. c. increase in output are apt to be vague unless the increase in consumptions is known.

In the same way, suppose manufactured consumption goods and services are increased by 100 p. c. and capital goods and services by 400 p. c., what may the effects be on the standard of living? It is impossible to say anything accurately. Suppose, again, the income per capital is doubled (taking again a certain base year) it alone hardly means anything, even if the distribution of the income is fair. One must, in calculating it, refer to the prevalent cost of living index.

Accordingly, to set a plan of production to the calculus of a certain standard of living must mean a vague prospect not consistent with the determinations that a plan generally has; nor can it all be very accurately mapped out. Such vagueness would in the first instance cause (1) uneconomical employment of factors and then (2) diseconomies also owing to maladjustments.

4. Again a plan of production cannot be partial. It should not go some way and then stop, before covering the entire field. The fact is, as all able economists have pointed out, that any economic planning, so to say, must be socialistic. It cannot stop at a certain stage, for example, additional employment of say, 4½ p. c. of the population only or a half-hearted arrangement of the social services, which must, of course, come as a result of the necessity of the increased production. For increased production must have to be consumed; and one cannot be very sure about the consumption position unless the plan is thorough, that is as completely overhauling and displacing the given system of unplanned production as possible.

5. The ends that a plan can have more reasonably before it are (a) full employment and (b) a desirable

rate of consumption The rate of increasing employment and the rate of increasing consumption are the only two reliable criteria for the rate of capital investments. At a certain rate of money wages (or real wages), a certain amount of capital expenditures would signify a certain rate of employment; and for a certain rate of increase in incomes, there is a certain rate of increase in consumption, within some determinate income-ranges. Again, for a certain rate of increase in the demand for consumption goods, there is, under given technical conditions, a certain rate of increased capital equipment. It is by bringing together all these rates, that one can find in a time-scale, the needs for new capital equipment, to ensure the maximum capital equipment, and the fullest possible employment. The rates may, however, also require that a certain amount of homogeneity in the socio-economic structure is there, viz., that in the several markets for consumable goods and services, the rates of consumption are not irregular, owing to the unaccountable use of consumers preferences.

6. There are no data for employment-rate, consumption-rate, or exact figures showing in modern technical conditions, the relation between an increase in the demand for consumption and the amount of capital investment needed for it (in capital equipment). Before any figures for additional capital are put down, it is necessary that the required knowledge is gathered for the planned economy. As has elsewhere been shown it depends only on knowledge and science, not on the expected play of psychological motives and ends. For this reason, it is necessary that the plan adopted should at the beginning provide for such knowledge to be acquired.

7. The grounds from where the plan starts must also be carefully studied. It is irrelevant to make a plan on the basis of 1932 figures or 1932-9 average price, when it must start at a time when the figures of 1932-39 would be left irrevocably behind. As a matter of commonsense, the operation

of the plan must start only at the end of the war, as nothing can be done so long as the war demands all the resources that can be given to it. So the postwar conditions must be taken into account; and the post-war conditions are obscure in the prospect. There can only be certain guesses and no more.

But it is most probable that in these post-war conditions there will be two important and dominating facts, viz. (1) a high level of production and employment reached in the war period ; (2) a fear of this level falling and of deinvestment and unemployment starting on a scale that will be proportionate to the scale of the war; and (c) there will also be a high cost price-level that would support the high production and employment level. It will be a part of the plan to maintain the production and employment, and necessarily also the cost price level for some time; and so the necessary task will be to equate the rate of de-investment (and unemployment) of factors to the rate of re-investments or new investments. Unless the plan can provide for it, it shall have to be deferred to future times indefinitely in expectation of some sort of balance arrived at in the economic structure; and, as in the last war period, the expected balance may never materialise.

8. Accordingly, it is proposed that a plan of production covering 12 years may be made. The first stage would be occupied in making such investments as (a) would cover the post-war de-investments of factors and (b) would permit an opportunity to study the rates of employment, consumption, and capital equipment requirements under given technological conditions. It is likely that some thing between 500 and 1000 crores of Rs. will be required in this stage, chiefly, in the field of industrial production, and also the construction of communications and development of power to a certain extent. The exact distribution of the capital expenditures at this date is nothing but a foolhardy business: for,

the rate of deinvestment is to be found out. Communications (Railways, Roads, aviation, etc.) and power (Hydro-electric) will be required, but here also one cannot say how much. To say that 10,000 miles more of Railways or 40 p. c. of the potential of hydro-electricity must be provided, does not make any sense. For not simply expenditures, but economic expenditures are to be made; and as for communications the spending will depend on the felt demand for regional communications or trunk lines, while the development of power will have to be made in view of the second stage of the plan, i.e., how much power could be used for starting and working the second stage. Neither agriculture nor the social services would get anything additional. The position of agriculture in the post-war world of India will be a curious thing, and as arrangement or expansion of output in it can be undertaken at once, without understanding the implications of such increased output. The concern expressed is that the pressure on food is increasing, and there must be an increase of the food supply, particularly in view of the possible increase in population. But that alone does not justify large scale additional capital investment. Again, other agricultural produces cannot be increased unless national and international demand position is more or less clearly grasped; otherwise, increased output will mean a fall in price that would go very ill with a rise in costs and output.

As regard the social services also one must wait instead of plunging at once. Economic judgements in this field are always the vaguest possible, and these are in the nature of permanent investments. Non-recurrent capital expenditures here might be of the nature of new investment to balance the deinvestment; but there cannot be any new additional expenditures made unless the socio-economic need is clearly expressed.

Accordingly, it may be put down that in this stage the higher proportion of capital would be put into industries, for consumption goods or services and also

for capital goods. Here the provision for capital goods production may have to be made very largely if no foreign borrowing or buying of these is possible or be uneconomic; otherwise the larger part of it will go to the production of consumption goods. Communications and power development may require some expenditures. But all capital expenditures must be such as to permit a study of the rates mentioned above. The position at the end of this stage would be something as follows :—

#### Old capital equipment—

deinvestment + additional investment - wear and tear of the surviving capital equipment = old capital equipment + x. (x being the new addition) The additional investment will be composed of  $x_1 + x_2 + x_3$ , to show the several rates required, but the net addition to the capital equipment would be x, a figure different from  $x_1 + x_2 + x_3$ .

9. It is not possible to foresee the size of the N. D. at this stage, even starting on the price level at the beginning of the plan. Suppose it rises in money terms to 2500 crores at the end of the war, (it may rise to more), the end of the first stage may find it at 3000 crores or so. Of course, it is real rate that is important; but for the sake of form it may be given a money value. The significance of it is that a part of it can be taxed to build up capital, with a necessary lowering of the standard of living i. e. the War-Time depression in the standard would be continued, probably with a little degree more of severity.

10. These three years should be sufficient also for the post war economy of the world to take a shape and also for finding credit outside. The supposition with which the plan starts is that there would be only 500-1000 crores of capital in hand (accumulated from now onwards during the war). No account is taken of the sterling balances nor of any other hoards or credits that can be exploited at once. In this

connection it may be pointed out that the capital in hand or saving, may be used (1) to buy capital goods or (2) to buy consumption-goods (=wage goods). The expenditures may be distributed between (1) and (2). If wage-goods are imported, by cash purchase or by credit, the level of living may not be worsened. So there must be a lookout for getting wage-goods and using them at home to build up capital equipment. This would mean that the increased employment is not accompanied by a fall in the real wages (nor in money, if that is managed). Otherwise, there must come a fall in the real rewards.

11. The second stage would cover 6 years: and it is the most deciding and crucial stage. The total capital requirements would be found out from the rate of increase in demand for consumption goods and the rate of capital equipment needed for it. For instance, if the increase in demand is  $x$ , the capital equipment required for it may be  $10x$ , and with the rate of replacement taken into count, say,  $10 \times 10x$ . (10 p. c. depreciation). In the several lines of consumption, the need for capital equipment may be so found out, and the production of this equipment may be provided for. This stage ought to be planned out in the third year of the first stage. The expenditures must be made on the most comprehensive basis.

Considering the problem in terms of employment of labour, and with reference to industries, one can say this. Suppose, the labour potentials at the end of the first stage are 8 crores (out of a working population (adult) of 15 crores—7 crores being left in agriculture etc.) it will be needed to employ these 8 crores. At a figure of 100 Rs. a year per head (in real wages), total for 8 crores would be 800 crores. In six years it would be 4800 crores. Allowing for a certain degree of rise in real living the figure may be put as, say, 6000 crores for industries. This will be a very low figure, though. In agriculture and services calculation on same lines but lower wages than in industries may give a figure of say, 4000 crores.

It may roughly be put that at least 10000 to 15000 crores would be needed to ensure that there is an approach to full employment at a (real) wage rate of Rs. 100 a year. The figure would be about 20000 to 25000 crores, if the wage-rate is raised a little higher. If the figure is 20000 crores: the rate of additional expenditure can be put as: 2000 crores; 3000 crores; 4000 crores; 5000 crores; 3000 crores. At the end of the stage, the capital equipment for industries, (basic or otherwise required for home) must be completed, together with the power-production and the economically required communications. As for the social services, the bulk of them must wait yet. Only what will be needed for technical training must be provided. The reasons are the same as those given in discussing the first stage, and would again be expatiated on later.

12. Some part of the investments must in this stage go to agriculture, as it may be time enough for taking up the land problem seriously. But the requirements in agriculture would be determinable in ways different from those in industry. In the first place, the existing sources and causes of diseconomy must be removed;—which will require some expenses; secondly, the margin of cultivation that may have been extended in war time should be reduced; thirdly capital equipment provided (together with yield) to reduce costs and not to increase them; and the margin must be reduced to the extent where the increased output would not be affected by fall in prices. In other words, the total output may not be increased, but expenditures must be made to reduce costs and keep supply within limits of national and world price-movements. One cannot say if that will mean new irrigation or so forth of long term capital investment. Short term capital equipment e. g. machinery and power etc. may be used if suitable cultivation methods are there. The efficiency of agricultural production is to be increased, but evidently the plan for an increase of output would depend on the actual prices, and the other parts of the economy of the country. And there will be

reduced employment and rise in real wages in agriculture. It will be the fulfilment of these ends that would demand capital expenditures in agriculture, the extent of which cannot be said off hand.

13. Evidently real wages must rise in the last two years of the second stage. The third stage will be given to (1) organisation and building of export industries, and (2) to fill all gaps in the equipment set up in the second stage; and (3) social services. As the intermediate position ought to be clearer by the end of the second stage and the way to full economic employment may still have to be covered, building up of export industries may be planned and worked out. Of course at no time during the second stage, the attention to the international position should slacken and the equipment set up in the second stage should be sought to be based as far as possible on the comparative costs principles i. e., comparison of the internal costs with the world prices for similar goods and services. This is the ultimate test of economy. In the third stage, full employment must be striven for, while the production system being fully at work, the services can be taken in hand, and employment of personal services would not upset the relation between real production and money values. This is an important point to mind. If the services are crowded without increase in real production in a proportionate way, the real rates and money rates will tend to be unequal-a movement that must be prevented as far as possible.

14. The capital requirements in the third stage ought not to be very high: there cannot be any guesses, but probably the three items mentioned in (13) would require 3000 to 5000 crores in 3 years at the utmost. The rate of expenditure may be put as 3000 crores : 1600 crore : 1000 crore. The rates may be changed, if the export-industries present any difficulty owing to the obscure international position. The heaviest amount of social expenditures may be put in the first year, so that they may function in the second and the third year.

15. Obviously, it is not possible to say what the size of the N. D. will be at the end of the second stage or the third; but what is more or less presumable will be that the expenditures in the third stage would be easily available from the savings (forced), while maintenance will also be provided for. The effects on the cost-price situation of the huge expenditures of the second-stage cannot be guessed at all; particularly as control may be exercised, and foreign borrowing (of wage goods) may take place also. The actual size of the N. D. after the deduction of payments to be made to outsider, may depend in money terms, on the prices (money). For the real rates, one must have a different kind of apparatus. (See the Author's Reconstruction and planned Economy).

16. As already said, the objective of the plan would be (1) full economic employment of factors (2) increase in consumption as far as possible. Without these two working, the economy of production will fail. It may be asked, consumption of what? What ranges of consumption goods and services would be produced or provided, would not a determination of that mean the same thing as the given or chosen standard of living? But such questions are useless. It is already seen that people consume certain goods and services; and they will go on consuming those (produced at home or imported) unless there is a revolutionary change in taste. It will be by personal preferences that they would show their tastes, and economic demands. The only concern will be to maintain a cost-price structure that would permit the people to consume the expected quantities. There are ways of doing it though it may require some selling at a loss in the first and second stages (if buying or borrowing wage-goods abroad is there or if the state sells wage-goods).

17. Certain features in the brief plan given above require explanation, part of which will be found in the Author's pamphlet on Reconstruction.

### Of the rest the following may be mentioned :

(a) Exact and determinate figures cannot be given as to the extent of capital requirements. To give such would be misleading. Nor can incomes from the additional investments be correctly calculated. There may be no end of difficulties in getting 6600 crores N. D. out of 10,000 crores of investment. It may be pointed out that in the U. K. the capital equipment is put somewhere between 15000 million £'s and 28000 million £'s and the N. D. is about 4000' million £'s (pre-war).

(b) The desirability of industrialisation on a large scale does not require excuse or explanation. But that cannot be conditioned by the effort to maintain agriculture as principal economy. Land is certainly a largely supplied factor now; but it may not be so all the time; nor the margin of cultivation arrived at likely to prove economical. There is no need to be anxious about a balanced economy; which does not and cannot exist.

(d) The same may be said of handicrafts and small cottage industries. Their exact significance depends on many things, chiefly, the socio-economic life. It is supposed that they may be kept up until full employment and industrialisation are there. But as these two are provided in the second stage and the third, it is not possible to harmonise their existence with the modern industrial set. They are rather handicrafts, the entailed portion of the older past order of agricultural economy.

(e) The intensity of the second stage is justified by the necessity of never protracting the coming of the new order. The sooner it is brought about the better, though the costs may be heavy and in bringing it about, the whole socio-economic life will have to be simplified by reduction of unequal incomes as far as possible through the abolition of profits (or interests). If any borrowing outside is made in the

first and the second stage, that can be paid back out of the increased N. D. in the third stage and subsequent periods.

(f) The assumption evidently is that through all the creation the economic employment of factors, scale of production, and the size of units, should all be carefully considered, first, by permitting comparative costs to be consulted as among the units in any industry and by always keeping in view the world cost-price structure.

18. The standard of life, said Marshall once, depends on the standard of living and the standard of living ultimately on the biologic capacity of a people. It is not the occasion to assess the biologic capacity of Indian peoples. But it is to be emphasised that the satisfaction of the material needs is fundamental. Economics requires that these needs be first satisfied, and along with it the other needs, spiritual or intellectual, will be. Otherwise, honesty as it prevails, in India has been demoralizing the whole people, and dragging down the intellectuals. The hour is come when this must be stopped, and the upward movement started.

But this cannot be done unless the whole socio-economic life is covered and set in motion.

Partial planning that does not provide for the advance to full employment will not be fulfilling its ends. And unless and until full employment is there, there is no meaning of the N. D. being trebled or the income per capita being doubled, as these average calculations never give the exact position, while unemployment on any large scale would only cause distributional complications.

19. There cannot be a plan for distribution, though there may be a wage-fund. Distribution will be determined by the individual consumption propensity, and that will have to be looked to in every field of supply. The individual preferences, backed by the necessary purchasing power and supplies, would build up the standard of living. This does not also require anything like minimum wages, a vague

negative formula. The wage-rate or rates would be conditioned ultimately by the wage-fund, (in real goods and services), and there need not be any hesitation about unequal rates, so long as they are not highly unequal. There will necessarily be a relation workable between wage-fund and wage-rate, and the production of consumable goods and services.

20. Again, the search for capital need not be an anxious one. As already said, one can from now manage a capital in hand of 500 to 1000 crores for the first stage. If even that is not found, then a good deal of difficulty would arise; and the essential requirements of the plan to be gathered in the first stage would not be easy to find. But even a want of capital need not be discouraging, only it would take time and cost a good deal more of hardship and depression in living to build up, and the plan may have to be postponed a little in time so that the required savings are extracted. But it seems that there would be the capital even if no sterling balances are there and also credit outside, not only in the first stage but also in the second; for the post war world may find the U. S. A. the U. K., and many others who would recover quickly, ready to grant credit.

As a matter of fact finding the required capital is the least of the difficulties, so long as people are ready to work hard to carry out the plan and are interested in the execution of it.

In the 15 year Plan some sources of capital have been mentioned under two categories, one of which is Savings and the other includes (1) hoards (2) Sterling Balances and (3) Foreign Credit. Out of these stress is laid on Foreign Credit and Savings. As for the hoards, the issue of de-hoarding is not easily settled. The sterling Balances (or the Debtor Balances) lie outside India, and their actual value will depend on the agreements reached, and the release of these may be a matter of debate, depending on the political settlements

of the postwar period. These sources, therefore, may be kept in suspense until they are finally settled.

21. The developments through the three stages may be described as follow: (in symbol's, the use of figures being unadvisable)

Let the start be with a price-level  $p$ , and consumption goods production,  $k$ . currency,  $n$ ,

The position will be  $n = p \times k \dots (1)$

Capital expenditures of ' $x$ ' is being made, in the first stage. If the capital is used (1) in buying some capital goods for increasing consumption, and (2) in buying equipment for producing capital goods,—that is, most of  $x$  is spent abroad, and only a little for setting the plants up, and working them, then only the last part of the expenditures would affect the position. Let it be  $(x - y)$ .

Then the position at the end of the first stage will be  $n + (x - y) = p' \times k'$ .

But as  $(x - y)$  would also be covering some de-investments and unemployment from the older economy,  $p'$  will not rise much, not at all in proportion to  $(x - y)$ , and, evidently, the increase in the total employment may not be very considerable at the given level of wages.  $k'$  will certainly be much greater than  $k$ , the relative rise of  $p'$  being smaller than it could otherwise be.

But it is certain that a large part of  $k'$  will have to be abstracted for saving, so there would not be any rise, if not actual depression of the level of living.

Then will begin the second stage.

It may be necessary in this stage to buy wage-goods abroad on credit, if possible, to avoid the depression in living, instead of either equipment for consumption industries or basic industries, both of which could be built up at home. If this is done then there

can be a distribution of wage-goods or money equivalents of the same.

The position will develop into something as follows in the first four years.

$n + (x - y) + z$  (new expenditures) =  $p''(k'' + kx)$ , in which  $kx$  would be the imported wage goods,  $z$  would be such that with  $n$  and  $(x - y)$ , it will give the other part of the equation. As the consumption industries set up in the first period will work along with those provided with new equipment made at home in the first 3 years of the second stage,  $k''$  will increase by fourth year into something that might provide full employment or as near it as possible, but  $p''$  may be relatively much higher than  $p'$ .

In the next two years, there will be further expansion of the consumption goods industries, on which the working of the other basic industries would depend.

$Z'$ , which will be spent in the last two years, would be distributed between the two, but may be given mostly to complete the capital goods production. The main point would be to see that for want of consumption goods or for want of a demand for these, the work of investment in the basic industries is not held up or is blocked up, after it has been set up in the bulk.

If taxation for savings is also carried on all the time, then the price-rises  $p'$  and  $p''$  and so forth will not be high enough, and such taxes may be used at the origin to keep up a rather steady level. Obviously, this would also provide in the second stage taxation of the incomes for setting up the basic industries. When these begin to work in the fifth and the sixth years, the rate of taxation may be reduced, as the demands for the consumption goods and services must be allowed to get under way.

The third stage would be comparatively easy, with the rate of consumption increasing, (also the demands),













